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IHS Markit South Korea Manufacturing PMI®

Manufacturing PMI at highest since September 2018

Key findings

Output rises at fastest pace for seven-and-a-half years

New orders increase for the first time since January

Business expectations rise to nine-month high

Data were collected 12-22 October 2020.

South Korean manufacturers signalled the first improvement in manufacturing operating conditions in 2020 so far in October. Contributing to overall growth was a faster upturn in production, whilst new orders returned to expansion for the first time in nine months. As demand conditions have gradually improved following widespread disruption caused by the coronavirus disease 2019 (COVID-19) pandemic earlier in the year, South Korean manufacturers were markedly optimistic in their outlook regarding activity over the coming 12 months. Business expectations rose to their highest since January.

At 51.2 in October, up from 49.8 in September, the South Korea Manufacturing Purchasing Managers' Index (PMI®) moved into expansion territory for the first time since December 2019. Although modest overall, the October PMI® signalled the strongest improvement in the manufacturing sector since September 2018.

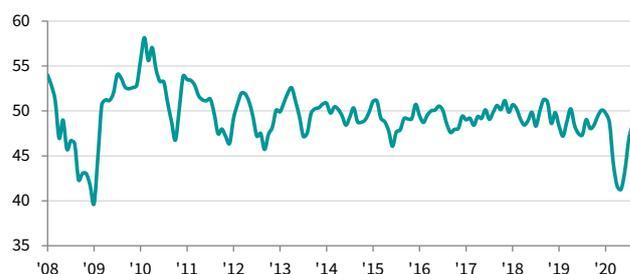
October data indicated a further rise in manufacturing output, and one that was quicker than that seen in September. Output rose at its fastest pace since April 2013. Manufacturers attributed the improvement to a gradual recovery in demand following the pandemic outbreak and introduction of restrictions designed to curb the spread of COVID-19. Some firms also stated that new client acquisitions had boosted output growth.

As overall operating conditions improved in October, firms reported an increase in new business for the first time since January. Respondents stated that growth was driven by greater order volumes from clients and stronger demand. Furthermore, new export work returned to expansion for the first time in since January, albeit at only a fractional rate.

A further reduction in employment levels weighed on the overall health of the South Korean manufacturing sector. The rate of job shedding was modest overall however, and the latest data

continued...

South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"October data marks a clear improvement in South Korea's manufacturing sector. A gradual recovery has been seen as the impacts of the COVID-19 pandemic eased and outright expansions in both output and new orders were registered, with both rising at their fastest paces in seven-and-a-half years.

"Furthermore, the sector was bolstered by a return to expansion in overseas demand. Although the latest data points to only a fractional increase, firms signalled increasing demand in key export markets such as the US and China.

"Nevertheless, firms signalled evidence of ongoing spare capacity amid further falls in employment levels, extending the current sequence of job losses to 18 months.

"On a more positive note, South Korean manufacturers reported a more optimistic outlook for activity over the coming 12 months. This positive outlook chimes with the IHS Markit forecast for industrial production to grow by 3.5% in 2021."

indicated the softest contraction in staffing levels since February. Firms cited the non-replacement of voluntary leavers as a major factor behind lower employment. Nonetheless, backlogs of work also fell, indicative of ongoing spare capacity, despite rises in output and new orders.

October data pointed to a sharp acceleration in input cost inflation faced by manufacturers. Input price pressures intensified in the latest survey period and were the steepest in over two years, as firms widely reported sharp rises in the cost of raw materials. Output prices, meanwhile, increased for the first time since January, as firms sought to pass higher costs on to clients.

Purchasing activity rose at the fastest pace since March 2011 in October. Yet, stocks of purchases fell further as firms reported the use of inventories to supplement production due to delays in receiving newly purchased inputs. Suppliers' delivery times lengthened for the twelfth month in a row.

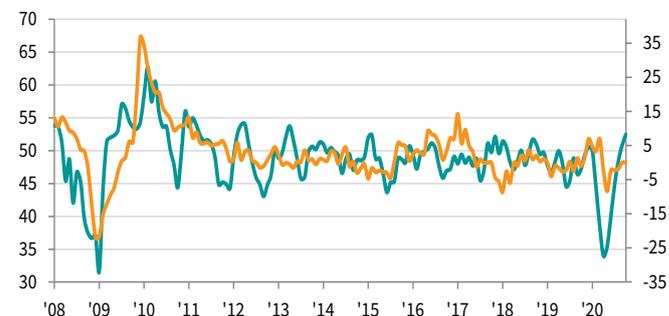
Looking forward, manufacturers in South Korea were strongly optimistic regarding the outlook for activity over the coming 12 months, with approximately one-third of respondents foreseeing a rise in production amid new product development and hopes of an ongoing recovery from the impacts of COVID-19.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



Sources: IHS Markit, KOSTAT.

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Methodology

The IHS Markit South Korea Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

October 2020 data were collected 12-22 October 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.
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